



CITY OF LODI

COUNCIL COMMUNICATION

AGENDA TITLE: Notice from Pacific Gas and Electric for a Gas Rate Increase and Electric revenue Increase (Annual Earnings Assessment and Cost of Capital Proceedings)

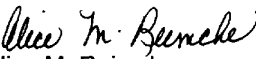
MEETING DATE: June 17, 1998

PREPARED BY: City Clerk

RECOMMENDED ACTION: Information only, no action required.

BACKGROUND INFORMATION: The City Clerk's Office has received a notice from Pacific Gas and Electric for a gas rate increase and electric revenue increase (Annual Earnings Assessment and Cost of Capital Proceedings) (Exhibit A). This is information only, no Council action is required.

FUNDING: None


Alice M. Reimche
City Clerk

APPROVED: _____
H. Dixon Flynn -- City Manager



**Pacific Gas and
Electric Company**

RECEIVED

99 MAY 18 AM 10:46

ALICE PLANNONE
CITY CLERK
CITY OF LOS ANGELES

Robert B. McLennen
Attorney at Law

77 Beale Street
San Francisco, CA

Mailing Address
P.O. Box 7442
San Francisco, CA 94120

415.973.2069
Telecopier: 415.543.7813
Telecopier: 415.973.9271

May 14, 1998

TO STATE, COUNTY AND CITY OFFICIALS:

Notice of Applications for a Gas Rate Increase and Electric Revenue Increase: Annual Earnings Assessment and Cost of Capital Proceedings

Pacific Gas and Electric Company (PG&E) recently filed two applications with the California Public Utilities Commission (CPUC) which ask for changes in PG&E's electric and natural gas revenues. The applications request that the CPUC authorize a net electric revenue requirement increase of \$38.6 million and a net natural gas revenue increase of \$14.1 million, effective January 1, 1999.

However, under the current electric rate freeze, electric rates would not be increased until 2002. Therefore, the net electric revenue increase requested in the two applications will not affect electric rates during the current electric rate freeze. The net gas revenue increase asked for in the two applications will raise gas rates as soon as approved by the CPUC.

1999 ANNUAL COST OF CAPITAL PROCEEDING

On May 8, 1998, PG&E filed Application No. 98-05-021, as part of a yearly cost of capital proceeding in which the CPUC evaluates PG&E's cost of acquiring funds to finance the company's operations and capital investments. In this case, PG&E is presenting its proposal for the cost of capital for its utility distribution operations. In previous years, the cost of capital for PG&E was set for all of PG&E's electric utility activities together. PG&E's electric distribution, transmission and generation operations were not looked at separately. With electric industry competition, PG&E's generation, distribution and transmission activities now are being treated as separate lines of business, with their own costs, including their own, separate cost of capital. Also, under PG&E's Gas Accord, PG&E's gas distribution operations are being treated as a separate line of business from gas transmission, storage and gathering. Therefore, PG&E's proposal is for separate costs of capital for its electric and gas distribution operations.

PG&E is requesting an authorized rate of return on equity (ROE) of 12.1 percent to compensate its shareholders fairly for the risks of investing in the utility's electric distribution and gas distribution operations.

If approved by the CPUC, PG&E's cost of capital proposals for its distribution utility operations, taken alone, would result in an electric distribution revenue requirement increase of \$49.7 million (0.6 percent). But if approved, the increase would not effect electric rates during the rate freeze. For gas rates, PG&E's proposal would lead to a gas revenue requirement increase of \$15.5 million (0.7 percent) for 1999.

PG&E's rates of return on its electric generation, electric transmission, and gas transmission, storage and gathering operations have been set in other proceedings. Therefore, PG&E has not included a requested 1999 cost of capital in this case for those parts of its utility operations.

On a stand-alone basis, the proposal for utility operations in this application would increase gas rates as shown in this table:

<i>Gas Customer Class</i>	<i>Revenue Increase (thousands)</i>	<i>% Increase</i>
Residential	\$10,581	0.85%
Small Commercial	\$4,020	0.86%
Large Commercial	\$306	0.45%
Industrial: Distribution	\$557	1.24%
Industrial: Transmission	\$26	0.05%
Cogeneration	\$6	0.02%
Utility Electric Generation	\$13	0.02%
Wholesale	\$0	0.00%
Total Revenue Change	\$15,509	0.73%

ANNUAL EARNINGS ASSESSMENT PROCEEDING (AEAP)

On May 1, 1998, PG&E filed Application No. 98-05-001, requesting a decrease in our electric revenues of \$11.1 million (as mentioned above, under the recent state law your electric rates will not change at this time) and a gas decrease of \$1.4 million in 1999. If this application is approved by the CPUC, the changes would *normally* result in a decrease in electric rates of about 0.15 percent.

The overall \$12.5 million net decrease results from the shareholder incentives that PG&E is eligible to receive for its energy efficiency programs over the past four years. PG&E has several programs to encourage customers to install energy-efficient measures. The CPUC has adopted a mechanism where PG&E keeps 30 percent of the value of energy efficiency

savings and ratepayers keep 70 percent of the benefits. PG&E's 1997 energy efficiency programs saved over \$120 million in energy costs, so the company is requesting a \$42.8-million shareholder incentive. Under normal recovery procedures established by the CPUC, this amount would be collected in four installments over the next ten years, so one fourth, or \$10.7 million (\$9.5 million electric and \$1.2 million gas), would be recoverable in 1999. The amount to be recovered for the 1997 programs is offset by the expiration of the recovery of shareholder incentives for PG&E's 1994 and 1995 energy efficiency programs. If PG&E had not earned a shareholder incentive for its 1997 programs, the electric revenue would have decreased by \$20.6 million and gas rates by \$2.6 million. The combined effect of the application, including interest, is a net electric revenue decrease of \$11.1 million (0.15 percent) and a \$1.4-million (0.07 percent) decrease compared to present gas revenues. However, as described above, state law requires no change in electric rates.

Here is how this application, on a stand-alone basis, would affect each gas customer class:

<i>Gas Customer Class</i>	<i>Revenue Decrease (thousands)</i>	<i>% Decrease</i>
Residential	-\$925	-0.07%
Small Commercial	-\$352	-0.08%
Large Commercial	-\$27	-0.04%
Industrial	-\$51	-0.11%
Cogeneration	-\$1	-0.00%
Utility Electric Generation	-\$1	-0.00%
Wholesale	-\$0	-0.00%
Total Revenue Change	-\$1,357	-0.07%

EVIDENTIARY HEARINGS

Before acting on these applications, the CPUC will hold separate evidentiary hearings on each, expected to begin within the next several months. At these hearings, which are open to the public, the CPUC will receive the testimony of PG&E, the CPUC's Office of Ratepayer Advocates and other interested parties.

Participants at these hearings may offer proposals that differ from those of PG&E. After considering these proposals, the CPUC will issue several decisions. The actual plan adopted by the CPUC may differ from what is requested by PG&E in its several applications, and may result in an increase or decrease in your individual gas rates.

If you want to participate in the hearings or send comments, if you need advice or more information, or if you want to get copies of the Office of Ratepayer Advocates' rate proposals when they are available, please write to:

The Public Advisor
California Public Utilities Commission
505 Van Ness Avenue, Room 5303
San Francisco, CA 94102

or via electronic mail to: public.advisor@cpuc.ca.gov

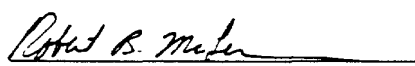
Mention which application you are writing about and indicate if you would like a written response, otherwise no reply will be sent. Your letter will be sent to the Commissioners and will become part of the formal correspondence file for the relevant application.

FOR FURTHER INFORMATION

You can get more information from PG&E by writing to: 1998 Rate Applications, PG&E, P.O. Box 7442, San Francisco, CA 94120. You may review a copy of any of the PG&E applications at our corporate headquarters (77 Beale Street, Room 3120, San Francisco, CA 94105), any of our division offices, or at the San Francisco office of the CPUC. Mention the name of the application about which you are inquiring.

This notice is given in accordance with the requirements of Rule 24 of the CPUC's Rules of Practice and Procedure.

PACIFIC GAS AND ELECTRIC COMPANY

By: 
Robert B. McLennan
Attorney